

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF EAST TAWAS		County IOSCO
Audit Date 09/30/2005	Opinion Date 12/02/2005	Date Accountant Report Submitted to State: 01/23/2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

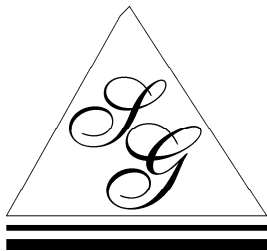
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brennan CPA		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

CITY OF EAST TAWAS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2005

**AUDITORS' REPORT**

INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 10

**BASIC FINANCIAL STATEMENTS****GOVERNMENT-WIDE FINANCIAL STATEMENTS**

EXHIBIT A	STATEMENT OF NET ASSETS	11
EXHIBIT B	STATEMENT OF ACTIVITIES	12

**FUND FINANCIAL STATEMENTS**

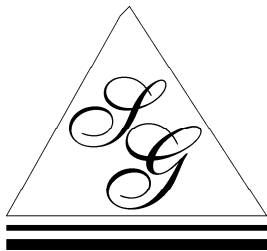
EXHIBIT C	BALANCE SHEET - GOVERNMENTAL FUNDS	13
EXHIBIT D	RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	14
EXHIBIT E	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	15
EXHIBIT F	RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	16
EXHIBIT G	STATEMENT OF NET ASSETS - PROPRIETARY FUNDS	17
EXHIBIT H	STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS	18
EXHIBIT I	STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	19
EXHIBIT J	STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS	20
EXHIBIT K	STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS	21
EXHIBIT L	NOTES TO FINANCIAL STATEMENTS	22 - 45

**REQUIRED SUPPLEMENTARY INFORMATION**

EXHIBIT M	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	46
EXHIBIT N	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - MAJOR STREET FUND - SPECIAL REVENUE FUND	47
EXHIBIT O	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FEDERAL PROJECT FUND - SPECIAL REVENUE FUND	48
EXHIBIT P	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - TIFA FUND - SPECIAL REVENUE FUND	49

**OTHER INFORMATION****COMBINING STATEMENTS - NONMAJOR FUNDS**

EXHIBIT Q	COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	50
EXHIBIT R	COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	51
	REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	52



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

December 2, 2005

## Independent Auditors' Report

Members of the City Council  
City of East Tawas  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the City of East Tawas' basic financial statements, as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit. The financial statements, reported discretely, reflect total assets of \$1,741,167 as of December 31, 2004, and total revenues of \$480,368 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, on our consideration of the City of the East Tawas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the City Council  
City of East Tawas  
December 2, 2005  
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawas' basic financial statements. The combining fund financial statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Grubb & Co., P.C.*

# City of East Tawas

760 Newman Street ♦ PO Box 672 ♦ East Tawas, Michigan 48730-0672  
989.362.6161 ♦ fax 989.362.6736 ♦ cityhall@easttawas.com  
www.easttawas.com

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of East Tawas' (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, does not include the component unit reported separately from the primary government.

### Financial Highlights

#### Financial Highlights

The City's assets exceeded its liabilities by \$15,749,156. Business-type activities (Enterprise Funds) account for \$9,805,234 of this total.

The City's total net assets increased by \$862,686. This is a 5.8% increase and is primarily due to road improvements provided through Michigan Department of Transportation grants.

The City's governmental funds reported a combined ending fund balance of \$2,597,453 this year, a decrease of \$71,552. Of this amount, \$2,527,629 is available for spending (*unreserved fund balance*) on behalf of its citizens. The decrease in governmental funds ending fund balance is primarily due to bond proceeds received in fiscal year 2003 which were expended for road construction in fiscal year 2004 and 2005. The General Fund 2004/2005 fiscal year end fund balance is \$1,021,783. This reflects a decrease of \$17,677 over fiscal year 2003/2004.

The City's total bonded and contract indebtedness was reduced by \$508,338. No new debt was issued.

### Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government and its component unit except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,029,957.

### **Fund Financial Statements**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

#### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Major Street Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.
- Federal Project Fund – This fund accounts for the collection of note receivable activity as a result of loans to downtown businesses from previous UDAG monies.
- TIFA Fund – This fund accounts for the administration and activities of funds spent in accordance with the Tax Increment Financing plan.

#### ***Proprietary Funds:***

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.

- Water Fund – This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.
- City Park Fund – This fund accounts for funds received for constructing, operating and maintaining the City's park facilities.

**Fiduciary Funds:** Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as the fiscal agent.

### Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. The notes to financial statements are presented in Exhibit L of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

### Government -Wide Financial Analysis

#### Summary of Net Assets:

The following summarizes the net assets of the City of East Tawas at September 30, 2005:

#### Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Current Assets	\$ 3,753,604	\$ 1,691,890	\$ 5,445,494	\$ 5,518,898
Restricted Assets	0	761,518	761,518	645,186
Noncurrent Assets	<u>6,007,409</u>	<u>10,775,678</u>	<u>16,783,087</u>	<u>16,470,381</u>
<b>Total Assets</b>	<u>9,761,013</u>	<u>13,229,086</u>	<u>22,990,099</u>	<u>22,634,465</u>
Current Liabilities	1,237,546	384,811	1,622,357	1,621,926
Long-Term Liabilities	<u>2,579,545</u>	<u>3,039,041</u>	<u>5,618,586</u>	<u>6,126,069</u>
<b>Total Liabilities</b>	<u>3,817,091</u>	<u>3,423,852</u>	<u>7,240,943</u>	<u>7,747,995</u>
<b>Net Assets</b>				
Invested in Capital Assets,				
Net of Debt	2,838,173	6,056,774	8,894,947	8,162,244
Restricted	69,824	761,517	831,341	712,156
Unrestricted	<u>3,035,925</u>	<u>2,986,943</u>	<u>6,022,868</u>	<u>6,012,070</u>
<b>Total Net Assets</b>	<u>\$ 5,943,922</u>	<u>\$ 9,805,234</u>	<u>\$ 15,749,156</u>	<u>\$ 14,886,470</u>



## Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2005 with comparative totals for 2004.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of East Tawas, through its governing body, i.e., city council, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>September 30, 2005</b>	<b>September 30, 2004</b>
<b>Program Revenues:</b>				
Charges for Services	\$ 143,166	\$ 1,345,617	\$ 1,488,783	\$ 1,479,058
Operating Grants and Contributions	336,183	47,643	383,826	344,111
Capital Grants and Contributions	178,296	0	178,296	440,917
<b>Total Program Revenues</b>	<b>657,645</b>	<b>1,393,260</b>	<b>2,050,905</b>	<b>2,264,086</b>
<b>Program Expenses:</b>				
General Government	589,131	0	589,131	588,953
Public Safety	426,196	0	426,196	404,236
Public Works	690,082	0	690,082	595,493
Community and Economic Development	78,580	0	78,580	63,884
Recreation and Cultural	136,076	0	136,076	133,452
Interest on Long-Term Debt	128,330	0	128,330	139,950
Sewer Expenses	0	398,874	398,874	420,533
Water Services	0	427,977	427,977	459,306
City Park Services	0	598,739	598,739	579,652
<b>Total Program Expenses</b>	<b>2,048,395</b>	<b>1,425,590</b>	<b>3,473,985</b>	<b>3,385,459</b>
<b>Net Program Expenses</b>	<b>(1,390,750)</b>	<b>(32,330)</b>	<b>(1,423,080)</b>	<b>(1,121,373)</b>
<b>General Revenues:</b>				
Property Taxes	1,171,477	314,474	1,485,951	1,434,881
State Revenue Sharing	308,764	0	308,764	309,325
Rent Income	285,184	31,152	316,336	283,671
Investment Earnings and Miscellaneous	106,332	41,979	148,311	103,662
Gain (Loss) on Sale/Disposal of Capital Assets	14,106	0	14,106	98,063
Other	3,208	9,090	12,298	0
Transfers – Internal Activity	235,153	(235,153)	0	0
<b>Total General Revenues and Transfers</b>	<b>2,124,224</b>	<b>161,542</b>	<b>2,285,766</b>	<b>2,229,602</b>
<b>Change in Net Assets</b>	<b>\$ 733,474</b>	<b>\$ 129,212</b>	<b>\$ 862,686</b>	<b>\$ 1,108,229</b>

## **Governmental Activities**

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$657,645 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$2,048,395 for these same activities. The largest expenses were incurred by General Government offices (\$589,131), Public Works (\$690,082) and Public Safety (\$426,196).

## **Business-Type Activities**

City of East Tawas's *Business-Type activities* are limited to the Sewer, Water and City Park Funds.

## **Financial Analysis of City Funds**

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

## **Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) Major Street Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts; 3) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies; and 4) TIFA Fund – accounts for the administration and activities of funds spent in accordance with the Tax Increment Financing plan.

This year's City audit, following GASB 34 format, shows 14 governmental funds. These funds are maintained by the City as separate units in the general ledger.

## **Enterprise Funds**

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments and the City Park comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I, of this report.

## **Budgetary Highlights**

### **General Fund Budgetary Highlights**

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Major Street Fund, Water Fund, Sewer Fund and Park Fund.

During the fiscal year ended September 30, 2005 the City Council amended the budget to take into account events occurring during the year. These budget amendments fall into three categories:

- Changes made to reflect the purchase and the sale of property
- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

The General Fund actual revenue was \$1,553,646. That amount is above the original budget estimate of \$1,440,359 and below the final amended budget estimate of \$1,640,095. The variance between the actual revenues and the original budget was the result of increased revenues from various sources. The variance between the actual revenue and the final budget was the result of not receiving as much state revenue as expected. The General Fund received its first distribution of revenue from the Iosco-Arenac District Library in 2005. The total received for 2005 was \$42,493. This millage will be collected through the 2013 tax collection.

The actual expenditures of the General Fund were \$1,663,753, which is above the original budget estimates of \$1,361,539 and below the final amended budget estimates of \$1,747,095. The variance between the actual expenditures and the original budget was primarily due to a purchase of vacant property late in the fiscal year. The variance between the actual expenditures and the final budget was due to decreased spending in various areas.

The General Fund had total revenues of \$1,553,646 and total expenditures of \$1,663,753.

Operating transfers in of \$305,153 include \$205,153 from revenues of the City Park, of which \$145,153 was then paid to the Building Authority as rent for the City Hall and Community Center. The Building Authority then used that money as payment of principal and interest for the bond issue for construction of the City Hall and Community Center. The remaining \$60,000 received from the Park was used to help fund the City's purchase of vacant land. Operating transfers in also includes \$100,000 from the Tax Increment Finance Authority.

Operating transfers out of \$223,973 include \$115,000 to the Intragovernmental Service Fund for equipment replacement; \$38,000 to the Community Center Fund for City Hall operations paid through the Community Center budget; and \$70,973 to the Major Street Fund which represents one mill of taxes earmarked by the City Council for road improvements.

Sale of fixed assets of \$11,250 resulted from the sale of City property and fire department equipment.

This results in an ending fund balance of \$1,021,783.

### **Major Street Fund Budgetary Highlights**

The Major Street Fund actual revenue was \$387,444. That amount is above both the original budget estimate of \$242,650 and the final amended budget estimate of \$265,745. Two major street projects that involved State and Federal grants occurred in the City during the 2004/2005 fiscal year. These projects include the following:

- Newman Street from U.S. 23 to Lincoln Street
- U.S. 23 from Tawas Beach Road to Wadsworth Street.

The variance between the actual revenues and the original and final amended budgets was the result of increased revenues from various sources.

The actual expenditures of the Major Street Fund were \$585,111 which is above the original budget estimate of \$313,025 and below the final amended budget of \$638,275. Reconstruction of Newman Street from Washington Street to Tawas Lake Road was completed during this fiscal year. This project accounts for the increase in

expenditures from the original budget. The Pine Street/West Westover project, which is a component of a joint project with Tawas City to create a truck loop from Oak and Cedar Streets in Tawas City, began late in the budget year and will be completed during the 2005/2006 fiscal year. It was anticipated that this project would start earlier and funds were budgeted for this project during the 2004/2005 fiscal year. This accounts for the decrease in actual expenditures from the final amended budget.

The Major Street Fund had total revenues of \$387,444 and total expenditures of \$585,111.

Operating transfers in of \$202,428 include \$131,455 from the Major Street Construction Fund which was proceeds from a 2003 bond issue for Newman Street from Washington Street to Tawas Lake Road and \$70,973 from the General Fund which represents one mill of taxes earmarked by the City Council for road improvements.

Operating transfers out of \$79,544 include \$59,544 to the Debt Service Fund which was the payment of principal and interest on the bond issue and \$20,000 to the Local Street Fund.

This activity resulted in a decrease in fund balance of \$74,783 leaving the Major Street Fund with a fund balance of \$64,674.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$6,085,865 with an ending balance of \$6,789,787. Governmental Activities Total Capital Assets – Net of Depreciation was \$5,178,173.

Capital Assets - Business Type Activities beginning balance was \$13,973,655 with an ending balance of \$14,085,078. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,851,784. An expanded and detailed presentation may be seen in Note 8 of the audit, notes to financial statements.

#### **Long-Term Debt**

At year's end, long-term debt (due in more than one year) amounted to \$5,155,972. Such debt includes *Contracts Payable and Bonds Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

#### **Economic Factors and Next Year's Budget and Rates**

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for over half of the City's General Fund revenues. Due to new construction and increased property values, the City will be collecting more in property taxes in 2005/2006 than it did in 2004/2005.

Revenue sharing from the State of Michigan is the next largest revenue source for the City and this source is beyond the control of the City. Although revenue estimates for the State are beginning to rise slightly, the City does not expect it to affect the 2005/2006 budget. Currently the budget anticipates the use of undesignated fund balance to cover any expenditures that exceed current year revenues.

Employee related costs account for approximately 25% of the General Fund expenditures. Contracted and professional services account for approximately 12% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 20%. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

The City Council and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of East Tawas Clerk's office located at 760 Newman Street, P.O. Box 672, East Tawas, Michigan, 48730.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
September 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	East Tawas Housing Commission
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 1,116,497	\$ 804,610	\$ 1,921,107	\$ 88,389
Investments (Note 2)	1,378,226	613,289	1,991,515	0
Receivables:				
Special assessments	6,893	0	6,893	0
Accounts	4,376	73,112	77,488	6,489
Interest	0	0	0	192
Due from state	65	0	65	0
Due from fiduciary funds (Note 3)	1,145,483	280,549	1,426,032	0
Due from component unit (Note 3)	7,394	0	7,394	0
Internal balances	79,670	(79,670)	0	0
Prepaid expenses	15,000	0	15,000	35,400
Total current assets	<u>3,753,604</u>	<u>1,691,890</u>	<u>5,445,494</u>	<u>130,470</u>
Restricted assets:				
Cash and cash equivalents (Note 2)	0	291,937	291,937	0
Investments (Note 2)	0	469,581	469,581	0
Total restricted assets	<u>0</u>	<u>761,518</u>	<u>761,518</u>	<u>0</u>
Noncurrent assets:				
Notes receivable	829,236	0	829,236	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,295,294	1,295,294	0
Investment in Iosco County Waste Water Treatment Plant (Note 7)	0	1,628,600	1,628,600	0
Capital assets, net (Note 8)	<u>5,178,173</u>	<u>7,851,784</u>	<u>13,029,957</u>	<u>1,567,280</u>
Total noncurrent assets	<u>6,007,409</u>	<u>10,775,678</u>	<u>16,783,087</u>	<u>1,567,280</u>
Total Assets	<u>9,761,013</u>	<u>13,229,086</u>	<u>22,990,099</u>	<u>1,697,750</u>
<u>Liabilities</u>				
Accounts payable	42,643	27,078	69,721	31,289
Accrued interest	52,541	66,432	118,973	3,860
Accrued liabilities	12,379	10,752	23,131	2,664
Due to other governments	0	0	0	15,987
Deferred revenue	1,129,983	280,549	1,410,532	497
Long-term liabilities:				
Due within one year (Note 9)	160,000	302,614	462,614	110,598
Due in more than one year (Note 9)	<u>2,419,545</u>	<u>2,736,427</u>	<u>5,155,972</u>	<u>477,094</u>
Total Liabilities	<u>3,817,091</u>	<u>3,423,852</u>	<u>7,240,943</u>	<u>641,989</u>
<u>Net Assets</u>				
Investment in capital assets, net of related debt	2,838,173	6,056,774	8,894,947	997,280
Restricted for:				
Debt service	2,535	746,517	749,052	0
Replacement	0	15,000	15,000	0
Perpetual care	67,289	0	67,289	0
Unrestricted	<u>3,035,925</u>	<u>2,986,943</u>	<u>6,022,868</u>	<u>58,481</u>
Total Net Assets	<u>\$ 5,943,922</u>	<u>\$ 9,805,234</u>	<u>\$ 15,749,156</u>	<u>\$ 1,055,761</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2005

					Net (Expense) Revenue and Changes in Net Assets			
		Program Revenues			Primary Government			Component Unit
			Operating	Capital				
Function/Program	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	East Tawas Housing Commission
<b>Primary Government:</b>								
Governmental activities:								
General government	\$ 589,131	\$ 12,989	\$ 500	\$ 0	\$ (575,642)	\$ 0	\$ (575,642)	
Public safety	426,196	82,063	8,902	0	(335,231)	0	(335,231)	
Public works	690,082	15,124	281,836	178,296	(214,826)	0	(214,826)	
Community and economic development	78,580	0	0	0	(78,580)	0	(78,580)	
Recreation and cultural	136,076	32,990	44,945	0	(58,141)	0	(58,141)	
Interest and fiscal charges	128,330	0	0	0	(128,330)	0	(128,330)	
Total governmental activities	2,048,395	143,166	336,183	178,296	(1,390,750)	0	(1,390,750)	
Business-type activities:								
Sewer services	398,874	384,085	47,643	0	0	32,854	32,854	
Water services	427,977	364,846	0	0	0	(63,131)	(63,131)	
City park services	598,739	596,686	0	0	0	(2,053)	(2,053)	
Total business-type activities	1,425,590	1,345,617	47,643	0	0	(32,330)	(32,330)	
Total primary government	\$ 3,473,985	\$ 1,488,783	\$ 383,826	\$ 178,296	(1,390,750)	(32,330)	(1,423,080)	
<b>Component Unit:</b>								
Housing Commission	\$ 444,935	\$ 241,068	\$ 234,882	\$ 0				\$ 31,015
<b>General Revenues:</b>								
Property taxes levied for:								
General operating					919,375	0	919,375	0
TIFA					252,102	0	252,102	0
Sewer debt service					0	161,053	161,053	0
Water debt service					0	153,421	153,421	0
State revenue sharing					308,764	0	308,764	0
Rent income					285,184	31,152	316,336	0
Interest and investment earnings					106,332	41,979	148,311	1,453
Gain (loss) on sale/disposal of capital assets					14,106	0	14,106	0
Other					3,208	9,090	12,298	2,965
Transfers - internal activity					235,153	(235,153)	0	0
Total general revenues and transfers					2,124,224	161,542	2,285,766	4,418
Change in net assets					733,474	129,212	862,686	35,433
Net assets - beginning of year					5,210,448	9,676,022	14,886,470	1,020,328
Net assets - end of year					\$ 5,943,922	\$ 9,805,234	\$ 15,749,156	\$ 1,055,761

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
September 30, 2005

	<u>General</u>	<u>Major Streets</u>	<u>Federal Project Fund</u>	<u>TIFA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>						
Cash and cash equivalents (Note 2)	\$ 102,822	\$ 83,668	\$ 281,793	\$ 334,398	\$ 313,816	\$ 1,116,497
Investments (Note 2)	820,386	0	0	205,171	352,669	1,378,226
Receivables:						
Special assessments	6,893	0	0	0	0	6,893
Accounts	3,458	0	918	0	0	4,376
Due from state	65	0	0	0	0	65
Notes receivable	0	0	829,236	0	0	829,236
Due from component unit (Note 3)	7,394	0	0	0	0	7,394
Due from other funds (Note 3)	1,103,788	8	0	125,547	818	1,230,161
Prepaid expenses	<u>7,500</u>	<u>0</u>	<u>0</u>	<u>7,500</u>	<u>0</u>	<u>15,000</u>
Total Assets	<u>\$ 2,052,306</u>	<u>\$ 83,676</u>	<u>\$ 1,111,947</u>	<u>\$ 672,616</u>	<u>\$ 667,303</u>	<u>\$ 4,587,848</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
Liabilities:						
Accounts payable	\$ 16,929	\$ 17,953	\$ 2,724	\$ 0	\$ 5,037	\$ 42,643
Accrued liabilities	9,157	1,049	0	0	2,173	12,379
Due to other funds (Note 3)	1	0	0	0	5,007	5,008
Deferred revenue	<u>1,004,436</u>	<u>0</u>	<u>800,382</u>	<u>125,547</u>	<u>0</u>	<u>1,930,365</u>
Total liabilities	<u>1,030,523</u>	<u>19,002</u>	<u>803,106</u>	<u>125,547</u>	<u>12,217</u>	<u>1,990,395</u>
<b><u>Fund Equity</u></b>						
Fund balances:						
Reserved for:						
Debt service	0	0	0	0	2,535	2,535
Perpetual care	0	0	0	0	67,289	67,289
Unreserved, reported in:						
Undesignated reported in:						
General Fund	1,021,783	0	0	0	0	1,021,783
Special revenue funds	<u>0</u>	<u>64,674</u>	<u>308,841</u>	<u>547,069</u>	<u>585,262</u>	<u>1,505,846</u>
Total fund equity	<u>1,021,783</u>	<u>64,674</u>	<u>308,841</u>	<u>547,069</u>	<u>655,086</u>	<u>2,597,453</u>
Total Liabilities and Fund Equity	<u>\$ 2,052,306</u>	<u>\$ 83,676</u>	<u>\$ 1,111,947</u>	<u>\$ 672,616</u>	<u>\$ 667,303</u>	<u>\$ 4,587,848</u>

The accompanying notes to financial statements are an integral part of this statement.



CITY OF EAST TAWAS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
September 30, 2005

Total governmental fund balances:		\$ 2,597,453
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 6,789,787	
Capital asset accumulated depreciation	<u>(1,611,614)</u>	
		5,178,173
Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:		
Notes receivable		800,382
Accrued interest on long-term debt		(52,541)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Compensated absences payable	(19,545)	
Bonds payable	<u>(2,560,000)</u>	
Total long-term liabilities		<u>(2,579,545)</u>
Total net assets - governmental activities		<u>\$ 5,943,922</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2005

	General	Major Streets	Federal Project Fund	TIFA Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>						
Current property taxes	\$ 919,375	\$ 0	\$ 0	\$ 252,102	\$ 0	\$ 1,171,477
Federal grants	0	142,637	0	0	0	142,637
State grants and revenue	308,764	240,280	0	0	77,215	626,259
Charges for services	93,323	0	0	0	24,336	117,659
Licenses and permits	1,144	0	0	0	0	1,144
Interest and rentals	169,809	4,527	46,516	12,503	173,131	406,486
Other revenue	61,231	0	155,525	0	5,717	222,473
Total revenue	<u>1,553,646</u>	<u>387,444</u>	<u>202,041</u>	<u>264,605</u>	<u>280,399</u>	<u>2,688,135</u>
<u>Expenditures</u>						
Current:						
General government	499,587	0	0	0	13,752	513,339
Public safety	376,471	0	0	0	0	376,471
Public works	378,321	178,548	0	0	77,160	634,029
Community and economic development	49,475	0	254,818	21,240	0	325,533
Recreation and cultural	34,899	0	0	0	96,736	131,635
Capital outlay	325,000	406,563	0	0	0	731,563
Debt service:						
Principal	0	0	0	0	165,000	165,000
Interest and fiscal charges	0	0	0	0	131,377	131,377
Total expenditures	<u>1,663,753</u>	<u>585,111</u>	<u>254,818</u>	<u>21,240</u>	<u>484,025</u>	<u>3,008,947</u>
Excess of revenue over (under) expenditures	<u>(110,107)</u>	<u>(197,667)</u>	<u>(52,777)</u>	<u>243,365</u>	<u>(203,626)</u>	<u>(320,812)</u>
Other Financing Sources (Uses):						
Sale of fixed assets	11,250	0	0	0	2,857	14,107
Operating transfers in	305,153	202,428	0	0	354,975	862,556
Operating transfers out	(223,973)	(79,544)	0	(191,430)	(132,456)	(627,403)
Total other financing sources (uses)	<u>92,430</u>	<u>122,884</u>	<u>0</u>	<u>(191,430)</u>	<u>225,376</u>	<u>249,260</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(17,677)</u>	<u>(74,783)</u>	<u>(52,777)</u>	<u>51,935</u>	<u>21,750</u>	<u>(71,552)</u>
Fund balances - beginning of year	<u>1,039,460</u>	<u>139,457</u>	<u>361,618</u>	<u>495,134</u>	<u>633,336</u>	<u>2,669,005</u>
Fund balances - end of year	<u>\$ 1,021,783</u>	<u>\$ 64,674</u>	<u>\$ 308,841</u>	<u>\$ 547,069</u>	<u>\$ 655,086</u>	<u>\$ 2,597,453</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2005

Total net change in fund balances - governmental funds		\$ (71,552)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation expense	\$ (189,560)	
Capital assets reported as capital outlays in the governmental funds	<u>731,563</u>	
Net difference		542,003
Gain on the disposal of capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, it is not reported as expenditures in the Governmental Funds.		
Historical cost of land sold		(1)
Principal repayments on notes are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:		
Bonds payable		165,000
Net change in accrued interest on long-term liabilities:		
Accrued interest on long-term liabilities September 30, 2004	55,588	
Accrued interest on long-term liabilities September 30, 2005	<u>(52,541)</u>	
Net change		3,047
Net change in accrued compensated absences:		
Accrued compensated absences September 30, 2004	20,047	
Accrued compensated absences September 30, 2005	<u>(19,545)</u>	
Net change		502
Note receivable principal loans and repayments are expenditures and revenue in the governmental funds, but the loans and repayments increase and reduce the note receivable balance in the statement of net assets. The activity reported in the governmental funds is as follows:		
Current year note receivable loan disbursements	250,000	
Current year note receivable principal receipts	<u>(155,525)</u>	
		<u>94,475</u>
Change in net assets of governmental activities		<u>\$ 733,474</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
September 30, 2005

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 138,160	\$ 191,238	\$ 475,212	\$ 804,610
Investments (Note 2)	200,000	403,289	10,000	613,289
Accounts receivable	38,551	34,561	0	73,112
Due from other funds (Note 3)	154,391	126,336	0	280,727
Total current assets	<u>531,102</u>	<u>755,424</u>	<u>485,212</u>	<u>1,771,738</u>
Restricted assets:				
Cash and cash equivalents (Note 2)	210,047	81,890	0	291,937
Investments (Note 2)	<u>340,326</u>	<u>129,255</u>	<u>0</u>	<u>469,581</u>
Total restricted assets	<u>550,373</u>	<u>211,145</u>	<u>0</u>	<u>761,518</u>
Noncurrent assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,295,294	0	1,295,294
Investment in Iosco County Waste Water Treatment Plant (Note 7)	1,628,600	0	0	1,628,600
Capital assets, net (Note 8)	<u>2,334,692</u>	<u>3,115,820</u>	<u>2,401,272</u>	<u>7,851,784</u>
Total noncurrent assets	<u>3,963,292</u>	<u>4,411,114</u>	<u>2,401,272</u>	<u>10,775,678</u>
Total Assets	<u>5,044,767</u>	<u>5,377,683</u>	<u>2,886,484</u>	<u>13,308,934</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	19,894	176	7,008	27,078
Accrued interest	20,702	45,730	0	66,432
Accrued liabilities	2,386	2,432	5,934	10,752
Due to other funds (Note 3)	429	472	78,947	79,848
Deferred revenue	154,213	126,336	0	280,549
Contracts payable, current (Note 9)	120,708	106,906	0	227,614
Revenue bonds payable, current (Note 9)	<u>50,000</u>	<u>25,000</u>	<u>0</u>	<u>75,000</u>
Total current liabilities	<u>368,332</u>	<u>307,052</u>	<u>91,889</u>	<u>767,273</u>
Noncurrent liabilities:				
Compensated absences (Note 9)	578	578	8,271	9,427
Contracts payable (Note 9)	572,884	654,116	0	1,227,000
Revenue bonds payable (Note 9)	<u>175,000</u>	<u>1,325,000</u>	<u>0</u>	<u>1,500,000</u>
Total noncurrent liabilities	<u>748,462</u>	<u>1,979,694</u>	<u>8,271</u>	<u>2,736,427</u>
Total Liabilities	<u>1,116,794</u>	<u>2,286,746</u>	<u>100,160</u>	<u>3,503,700</u>
<u>Net Assets</u>				
Investment in capital assets, net of related debt	2,109,692	1,545,810	2,401,272	6,056,774
Restricted for:				
Debt service	535,372	211,145	0	746,517
Replacement	15,000	0	0	15,000
Unrestricted	<u>1,267,909</u>	<u>1,333,982</u>	<u>385,052</u>	<u>2,986,943</u>
Total Net Assets	<u>\$ 3,927,973</u>	<u>\$ 3,090,937</u>	<u>\$ 2,786,324</u>	<u>\$ 9,805,234</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
For the Year Ended September 30, 2005

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges for services	\$ 360,557	\$ 359,766	\$ 596,686	\$ 1,317,009
Service connection charges	18,400	0	0	18,400
Penalties	5,128	5,080	0	10,208
Rentals	0	31,152	0	31,152
Miscellaneous	100	1,110	7,880	9,090
Total operating revenue	<u>384,185</u>	<u>397,108</u>	<u>604,566</u>	<u>1,385,859</u>
<u>Operating Expenses</u>				
Salaries	35,823	35,127	178,593	249,543
Fringe benefits	17,671	17,948	32,285	67,904
Advertising	0	0	1,048	1,048
Contracted services	195,163	133,673	4,557	333,393
Operating supplies	2,720	2,733	24,327	29,780
Insurance	4,366	3,133	26,085	33,584
Repairs and maintenance	4,315	1,748	34,764	40,827
Travel and training	99	0	0	99
Utilities	4,769	0	76,686	81,455
Other	0	525	10,135	10,660
Depreciation	80,327	116,796	210,259	407,382
Total operating expenses	<u>345,253</u>	<u>311,683</u>	<u>598,739</u>	<u>1,255,675</u>
Operating income	<u>38,932</u>	<u>85,425</u>	<u>5,827</u>	<u>130,184</u>
<u>Non-operating Revenue (Expenses)</u>				
Current property taxes	161,053	153,421	0	314,474
Interest income	19,382	16,570	6,027	41,979
Contributions	47,643	0	0	47,643
Interest expense and paying agent fees	(53,621)	(116,294)	0	(169,915)
Total non-operating revenue (expenses)	<u>174,457</u>	<u>53,697</u>	<u>6,027</u>	<u>234,181</u>
Income before operating transfers	213,389	139,122	11,854	364,365
<u>Other Financing Uses</u>				
Operating transfers out	<u>0</u>	<u>0</u>	<u>(235,153)</u>	<u>(235,153)</u>
Change in net assets	213,389	139,122	(223,299)	129,212
Net assets - beginning of year	<u>3,714,584</u>	<u>2,951,815</u>	<u>3,009,623</u>	<u>9,676,022</u>
Net assets - end of year	<u>\$ 3,927,973</u>	<u>\$ 3,090,937</u>	<u>\$ 2,786,324</u>	<u>\$ 9,805,234</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
For the Year Ended September 30, 2005

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Cash Flows From Operating Activities</u>				
Receipts from customers	\$ 387,548	\$ 400,499	\$ 604,566	\$ 1,392,613
Payments for operating expenses	(247,292)	(194,311)	(387,501)	(829,104)
Receipts from operating grants and contributions	47,643	0	0	47,643
Net cash provided by operating activities	<u>187,899</u>	<u>206,188</u>	<u>217,065</u>	<u>611,152</u>
<u>Cash Flows From Noncapital Financing Activities</u>				
Property taxes received	153,183	126,207	0	279,390
Cash paid to other funds	7,582	27,324	(167,772)	(132,866)
Net cash provided (used) by noncapital financing activities	<u>160,765</u>	<u>153,531</u>	<u>(167,772)</u>	<u>146,524</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Acquisition and construction of capital assets	(37,759)	(55,020)	(18,644)	(111,423)
Principal paid on long-term debt	(182,624)	(137,023)	0	(319,647)
Interest paid on long-term debt	(57,434)	(119,358)	0	(176,792)
Net cash used by capital and related financing activities	<u>(277,817)</u>	<u>(311,401)</u>	<u>(18,644)</u>	<u>(607,862)</u>
<u>Cash Flows From Investing Activities</u>				
Purchase of investment securities	(430,037)	(603,977)	0	(1,034,014)
Proceeds from maturity of investment securities	432,618	485,877	0	918,495
Interest on investments	14,121	13,853	6,027	34,001
Net cash provided (used) by investing activities	<u>16,702</u>	<u>(104,247)</u>	<u>6,027</u>	<u>(81,518)</u>
Net increase (decrease) in cash and cash equivalents	87,549	(55,929)	36,676	68,296
Cash and cash equivalents at beginning of year (Note 1)	<u>260,658</u>	<u>329,057</u>	<u>438,536</u>	<u>1,028,251</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 348,207</u>	<u>\$ 273,128</u>	<u>\$ 475,212</u>	<u>\$ 1,096,547</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>				
Operating income	\$ 38,932	\$ 85,425	\$ 5,827	\$ 130,184
Adjustments to reconcile operating income to net cash provided by operating activities:				
Contributions	47,643	0	0	47,643
Depreciation expense	80,327	116,796	210,259	407,382
Change in assets and liabilities:				
Accounts receivable, net	3,363	3,391	0	6,754
Accounts and other payables	17,000	128	180	17,308
Accrued expenses	355	169	0	524
Accrued compensated absences	279	279	799	1,357
Net cash provided by operating activities	<u>\$ 187,899</u>	<u>\$ 206,188</u>	<u>\$ 217,065</u>	<u>\$ 611,152</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
September 30, 2005

	<u>Pension Trust</u>	<u>Tax Account</u>	<u>Trust and Agency</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 0	\$ 1,267,648	\$ 2,265	\$ 1,269,913
Taxes receivable	<u>0</u>	<u>334,678</u>	<u>0</u>	<u>334,678</u>
Total Assets	<u>0</u>	<u>1,602,326</u>	<u>2,265</u>	<u>1,604,591</u>
<u>LIABILITIES</u>				
Due to other units	0	176,389	0	176,389
Due to others	0	0	2,170	2,170
Due to other funds (Note 3)	<u>0</u>	<u>1,425,937</u>	<u>95</u>	<u>1,426,032</u>
Total Liabilities	<u>0</u>	<u>1,602,326</u>	<u>2,265</u>	<u>1,604,591</u>
<u>Net Assets</u>				
Held in trust for pension benefits	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
For the Year Ended September 30, 2005

	<u>Pension Trust</u>
<u>Additions</u>	
Interest and investment revenue	\$ 1,327
<u>Deductions</u>	
Transfer of fund assets to new outside plan administrator	<u>698,321</u>
Change in net assets	(696,994)
Net assets - beginning of year	<u>696,994</u>
Net assets - end of year	<u>\$ 0</u>

The accompanying notes to financial statements are an integral part of this statement.



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Tawas conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of City Operations and Fund Types

The City of East Tawas is organized under Michigan's Comprehensive Home Rule City Act. The City operates under an elected City Council (seven members) and provides services to its residents in many areas, including fire protection, water and sewer services, and maintenance of major and local streets. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Education services are provided to citizens through the local school district which is a separate governmental entity and is not part of this report.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, board, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Blended Component Units

East Tawas City Park - The East Tawas City Park is legally separate from the City. The City Park is reported as if it were part of the primary government because its sole purpose is to finance, construct and operate the City's park facilities. The financial activities of the East Tawas City Park are recorded in an Enterprise Fund, which is accounted for using the accrual basis of accounting.

East Tawas Building Authority - The City of East Tawas Building Authority is governed by a three member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

East Tawas Tax Increment Finance Authority—The East Tawas Tax Increment Finance Authority (TIFA) is governed by a five member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the TIFA is reported as if it were part of the primary government because its sole purpose is to finance improvements within the TIFA District of the City of East Tawas. The financial activities of the TIFA are recorded in a Capital Project Fund.

Discretely Presented Component Unit

The component unit columns on the combined financial statements include the financial data of the East Tawas Housing Commission as of and for the year ended December 31, 2004. The Housing Commission is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City Council. The Housing Commission was created by an ordinance of the City of East Tawas to provide safe, sanitary and decent housing for qualifying senior and low income families. Complete financial statements can be obtained from the East Tawas Housing Commission office.

C. Joint Ventures

The City of East Tawas has entered into several joint ventures with various municipalities described as follows:

1. Tawas Police Authority:

The Tawas Police Authority functions as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established to provide police protection to the constituent municipalities, the City of East Tawas and City of Tawas City and other municipalities by contract. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2005 was \$236,601. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 516 Oak Street, Tawas City, Michigan 48763.

2. Tawas Utility Authority:

The Tawas Utility Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2005 was \$191,587. Complete financial statements can be obtained from the City of East Tawas, City Manager's office.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

3. Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the City of East Tawas' share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the City because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 15.75% of the total bond issue of \$7,930,000 or \$1,248,975. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of East Tawas is making payments through ad-valorem taxes and charges for services.

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The City of East Tawas' contribution for the year ended September 30, 2005 was \$127,759. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,295,294. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

**Governmental Funds (Continued)**

Major Street Fund - This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

Federal Project Fund - This fund is used to account for loans to local businesses for the purpose of community and economic development.

TIFA Fund - This fund is used to account for administrative costs of the Tax Increment Finance Authority.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund—This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.

Water Fund—This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

City Park Fund—This fund accounts for fees collected for park services provided by the City.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds, including the Trust and Agency Fund and Tax Collection Fund.

F. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues—Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, and rent.

**Deferred Revenues**

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at September 30, 2005, but were levied to finance 2005-2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Budgets and Budgetary Accounting

The City normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Budgets and Budgetary Accounting (Continued)

The legal level of control is at the functional level for the General Fund and the Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the City Council. The financial statements include budgetary amounts as amended.

I. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

J. Receivables

Receivables at September 30, 2005, consist of accounts (fees), interest and special assessments. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for sewer and water services due from various customers.

K. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances due from/to fiduciary funds and component units are also reported on the government-wide statement of net assets.

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the governmental-wide financial statements.

M. Inventories

Inventories have not been recognized in the financial statements as they are not material and have been expensed when purchased.



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's infrastructure consists of roads, bridges, dams, and water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	25 - 50 years
Land Improvements	10 - 20 years
Machinery and Equipment	5 - 10 years
Vehicles	5 - 10 years
Utility Systems	25 - 40 years
Infrastructure	20 - 40 years

O. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration limits specified in the City's termination policy. The City records a liability for sick leave earned at varying rates depending on the City policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave is paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

R. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for future debt service and perpetual care expenses.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are charges for services for water, sewer and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

U. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CITY OF EAST TAWAS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
<u>Current Assets</u>					
Cash and Cash Equivalents	\$ 1,116,497	\$ 804,610	\$1,269,913	\$ 3,191,020	\$ 88,389
Investments	<u>1,378,226</u>	<u>613,289</u>	<u>0</u>	<u>1,991,515</u>	<u>0</u>
Total Current Assets	<u>2,494,723</u>	<u>1,417,899</u>	<u>1,269,913</u>	<u>5,182,535</u>	<u>88,389</u>
<u>Restricted Assets</u>					
Cash and Cash Equivalents	0	291,937	0	291,937	0
Investments	<u>0</u>	<u>469,581</u>	<u>0</u>	<u>469,581</u>	<u>0</u>
Total Restricted Assets	<u>0</u>	<u>761,518</u>	<u>0</u>	<u>761,518</u>	<u>0</u>
	<u>\$ 2,494,723</u>	<u>\$ 2,179,417</u>	<u>\$1,269,913</u>	<u>\$ 5,944,053</u>	<u>\$ 88,389</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 2,643,687	\$ 88,189
Investments in financial institution pooled funds	3,299,836	0
Petty Cash and Cash on Hand	<u>530</u>	<u>200</u>
Total	<u>\$ 5,944,053</u>	<u>\$ 88,389</u>

As of September 30, 2005, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 3,299,836</u>	Daily

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The City's investment pools are unrated.

Custodial Credit Risk—Deposits—Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2005, \$2,110,756 of the City's bank balance of \$2,713,207 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk—Deposits—Component Unit

In the case of deposits, this is the risk that in the event of a bank failure, the Housing Commission's deposits may not be returned to it. As of September 30, 2005, \$0 of the Housing Commission's bank balance of \$88,189 was exposed to custodial credit risk.

Custodial Credit Risk—Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The City's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The City Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 3 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of September 30, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 1,103,788	\$ 1
Major Street Fund	8	0
TIFA Fund	125,547	0
Total Major Governmental Funds	<u>1,229,343</u>	<u>1</u>
Non-major Governmental Funds	<u>818</u>	<u>5,007</u>
Major Enterprise Fund:		
Sewer Fund	154,391	429
Water Fund	126,336	472
City Park Fund	<u>0</u>	<u>78,947</u>
Total Major Enterprise Funds	<u>280,727</u>	<u>79,848</u>
Fiduciary Funds	<u>0</u>	<u>1,426,032</u>
	<u>\$ 1,510,888</u>	<u>\$ 1,510,888</u>

The amounts of interfund receivables and payables for the primary government as of September 30, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 78,947	City Park	\$ 78,947
General Fund	5,000	Community Center Fund	5,000
General Fund	1,019,841	Tax Account	1,019,841
Major Street Fund	1	General Fund	1
Major Street Fund	7	Local Street Fund	7
Community Center Fund	429	Sewer Fund	429
Community Center Fund	294	Water Fund	294
Community Center Fund	95	Trust and Agency Fund	95
Water Fund	126,336	Tax Account	126,336
Sewer Fund	178	Water Fund	178
Sewer Fund	154,213	Tax Account	154,213
TIFA Fund	<u>125,547</u>	Tax Account	<u>125,547</u>
Total	<u>\$ 1,510,888</u>		<u>\$ 1,510,888</u>

Due from (to)

<u>Fund</u>	<u>Component Unit</u>
General Fund	<u>\$ 7,394*</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 3 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY (CONTINUED)

\* The Due from (to) component unit does not offset due to different fiscal year ends between the City and the East Tawas Housing Commission explained as follows:

Due from (to)  
Component Unit

Housing Commission's share of  
payroll and insurance expenditures  
paid by City General Fund sub-  
sequent to December 31, 2004      \$ 7,394\*

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$75,370,141. The tax rates were 15.9139 mills for operations/debt, 0.4185 mills for unlimited bond debt and 2.0176 mills for garbage.

NOTE 5 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all its general employees. The plan was recorded in the general purpose financial statements as a pension trust fund. Effective November 12, 2004, the plan is administered through the Hartford Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Contributions made by an employee vest immediately and contributions made by the City vest after 5 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. The City is required to contribute an amount equal to 8% of the employee's gross earnings.

During the year, the City's required and actual contributions amounted to \$48,249.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

CITY OF EAST TAWAS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005NOTE 6 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. All liabilities incurred have been accrued in the financial statements as of September 30, 2005.

NOTE 7 - INVESTMENT IN IOSCO COUNTY WASTEWATER TREATMENT PLANT

The City entered into a joint waste water treatment plant contract with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987. The most current estimate of the City's share is 38.32% of the total funding bond issue of \$4,250,000 or \$1,628,600. The initial contract amount is recorded as investment in Iosco County Waste Water Treatment Plant in the Sewer Fund of the City because the assets of the joint waste water treatment plant are the property of Iosco County and therefore are not presented in these financial statements.

NOTE 8 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Balance October 1, 2004	Additions	Deletions	Balance September 30, 2005
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 546,814	\$ 325,000	\$ 1	\$ 871,813
Construction in Progress	0	34,341	0	34,341
Subtotal	<u>546,814</u>	<u>359,341</u>	<u>1</u>	<u>906,154</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	2,930,811	0	0	2,930,811
Land Improvements	81,192	0	0	81,192
Machinery and Equipment	773,768	0	0	773,768
Vehicles	765,414	0	27,640	737,774
Infrastructure - Roads	<u>987,866</u>	<u>372,222</u>	<u>0</u>	<u>1,360,088</u>
Subtotal	<u>5,539,051</u>	<u>372,222</u>	<u>27,640</u>	<u>5,883,633</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	489,583	71,916	0	561,499
Land Improvements	2,898	4,387	0	7,285
Machinery and Equipment	417,867	58,700	0	476,567
Vehicles	538,725	43,905	27,640	554,990
Infrastructure - Roads	<u>621</u>	<u>10,652</u>	<u>0</u>	<u>11,273</u>
Subtotal	<u>1,449,694</u>	<u>189,560</u>	<u>27,640</u>	<u>1,611,614</u>
Capital Assets Being Depreciated:	<u>4,089,357</u>	<u>182,662</u>	<u>0</u>	<u>4,272,019</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 4,636,171</u>	<u>\$ 542,003</u>	<u>\$ 1</u>	<u>\$ 5,178,173</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 8 - CAPITAL ASSETS (CONTINUED)

	Balance <u>October 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>September 30, 2005</u>
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 240,565	\$ 0	\$ 0	\$ 240,565
Construction in Progress	<u>0</u>	<u>2,224</u>	<u>0</u>	<u>2,224</u>
Subtotal	<u>240,565</u>	<u>2,224</u>	<u>0</u>	<u>242,789</u>
Capital Assets Being Depreciated:				
Land Improvement	3,754,791	16,420	0	3,771,211
Buildings	960,080	0	0	960,080
Plant and Equipment:				
Distribution and Collection Systems	8,410,066	92,779	0	8,502,845
Machinery, Equipment and Signs	<u>608,153</u>	<u>0</u>	<u>0</u>	<u>608,153</u>
Subtotal	<u>13,733,090</u>	<u>109,199</u>	<u>0</u>	<u>13,842,289</u>
Less Accumulated Depreciation for:				
Land Improvement	1,935,181	167,399	0	2,102,580
Buildings	411,563	31,358	0	442,921
Plant and Equipment:				
Distribution and Collection Systems	2,974,985	185,357	0	3,160,342
Machinery, Equipment and Signs	<u>504,183</u>	<u>23,268</u>	<u>0</u>	<u>527,451</u>
Subtotal	<u>5,825,912</u>	<u>407,382</u>	<u>0</u>	<u>6,233,294</u>
Net Capital Assets Being Depreciated	<u>7,907,178</u>	<u>(298,183)</u>	<u>0</u>	<u>7,608,995</u>
Business-Type Activities Total				
Capital Assets-Net of Depreciation	<u>\$ 8,147,743</u>	<u>\$ (295,959)</u>	<u>\$ 0</u>	<u>\$ 7,851,784</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General government	\$ 75,596
Public safety	49,725
Public works	56,821
Community and economic development	3,047
Recreation and cultural	<u>4,371</u>
Total Governmental Activities	<u>\$ 189,560</u>
Business-Type Activities	
Sewer	\$ 80,327
Water	116,796
City Park	<u>210,259</u>
Total Business-Type Activities	<u>\$ 407,382</u>



CITY OF EAST TAWAS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005NOTE 8 - CAPITAL ASSETS (CONTINUED)

Capital asset activity of the City of East Tawas Housing Commission for the year ended December 31, 2004 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 205,892	\$ 0	\$ 0	\$ 205,892
Capital Assets Being Depreciated:				
Buildings	2,313,321	32,830	0	2,346,151
Furniture and Equipment	77,612	5,826	0	83,438
Leasehold Improvements	493,924	5,885	7,100	492,709
	2,884,857	44,541	7,100	2,922,298
Less Accumulated Depreciation	1,468,112	99,898	7,100	1,560,910
Net Capital Assets Being Depreciated	1,416,745	(55,357)	0	1,361,388
Business-Type Activities Total Capital Assets-Net of Depreciation	\$ 1,622,637	\$ (55,357)	\$ 0	\$ 1,567,280

NOTE 9 - LONG-TERM DEBT

At September 30, 2005, long-term debt consists of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u>		
A. Contracts Payable:		
Joint waste water treatment plant with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987, due in annual installments through November 1, 2009, bearing interest at the rates of 4.5% to 5.9%. The most current estimate of the City's share is 38.32% of the total refunding bond issue of \$4,250,000 or \$1,628,600.	\$ 0	\$ 693,592
Joint water board agreement with the City of Tawas City and Baldwin Township through the Iosco County Board of Public Works to finance the cost of improvements and additions of the water supply system, dated June 28, 1977, due in annual installments through July 1, 2016, bearing interest at the rate of 5%. The most current estimate of the City's share is 49% of the total bond issue of \$982,000 or \$481,180.	0	220,010

CITY OF EAST TAWAS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005NOTE 9 - LONG-TERM DEBT (CONTINUED)Primary Government: (Continued)

## A. Contracts Payable: (Continued)

Governmental      Business-Type

Joint water supply system agreement with the City of Tawas City, the Charter Townships of AuSable and Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 15.75% of the total bond issue of \$7,930,000 or \$1,248,975.

\$	0	\$	541,012
	0		1,454,614

## B. Revenue Bonds:

\$1,485,000 water supply system revenue bonds, dated July 1, 1999 used for the purpose of defraying the cost of acquiring and constructing extensions and improvements to the City of East Tawas water supply system. The bonds bear interest from 5.3% - 5.6% and are due in annual installments through 2029.

0	1,350,000
---	-----------

\$460,000 Sewage Disposal System Revenue Bonds, dated April 2, 1997 used for the cost of acquiring and constructing sanitary sewer improvements. The bonds bear interest from 4.10% - 5.30% and are due in annual installments through 2009.

0	225,000
0	1,575,000

## C. General Obligation Bonds Payable:

\$635,000 Limited Tax General Obligation Sewer Refunding Bonds, dated September 1, 1988 for the purpose of advance refunding the County's Iosco County Sewer System #2 General Obligation Bonds. The bonds bear interest at 3.70% - 4.35% and are due in annual installments through 2008.

220,000	0
---------	---

\$2,000,000 1999 Building Authority Limited Tax General Obligation Bonds, dated June 1, 1999 for the purpose of paying the cost of acquiring, constructing and equipping a community center and City Hall building, which the City has leased in return for the payment of certain rentals pursuant to a Limited Tax Full Faith and Credit General Obligation Contract of Lease between the City and the Authority. The bonds bear interest at 5.10% - 5.40% and are due in annual installments through 2023.

1,780,000	0
-----------	---

CITY OF EAST TAWAS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005NOTE 9 - LONG-TERM DEBT (CONTINUED)Primary Government: (Continued)

## C. General Obligation Bonds Payable: (Continued)

\$630,000 Limited Tax General Obligation Construction Bonds, dated August 1, 2003 for the purpose of paying part of the cost of acquiring and constructing street improvements. The bonds bear interest at 4.125% and are due in annual installments through 2018.

<u>Governmental</u>	<u>Business-Type</u>
\$ 560,000	\$ 0
<u>2,560,000</u>	<u>0</u>
Total Primary Government	\$ 2,560,000    \$ 3,029,614

Component Unit

## Business-Type Activities :

## D. General Obligation Bonds Payable:

Housing Commission - \$1,130,000 1998 General Obligation Unlimited Tax Refunding Bonds, dated September 29, 1998 used for Section 8 Senior Citizens Housing. The bonds bear interest from 3.65% - 4.15% and are due in annual installments through 2009.

\$ 0	\$ 570,000
------	------------

E. Compensated Absences

Accumulated and unused sick leave is paid to all City employees who formally retire, up to a maximum of 45 days. The City also has a vacation pay policy which allows employees with at least 10 vacation days to carryover up to a maximum of five days. Accumulated and unused vacation days, personal leave days, and accumulated compensation time is paid to all employees of the Housing Commission who formally retire. Compensated absences are recorded using the vesting method in accordance with Governmental Standards Board Statement 16. The amount of accumulated sick and vacation pay liability for the City and its component unit as of September 30, 2005 was \$46,664 of which \$5,598 was the estimated current portion.

F. Changes in Long-Term Liabilities

	<u>Balance October 1, 2004</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
General obligation bonds payable	\$ 2,725,000	\$ 0	\$ 165,000	\$ 2,560,000	\$ 160,000
Accrued employee benefits payable	<u>20,047</u>	<u>0</u>	<u>502*</u>	<u>19,545</u>	<u>0</u>
Total primary government	<u>\$ 2,745,047</u>	<u>\$ 0</u>	<u>\$ 165,502</u>	<u>\$ 2,579,545</u>	<u>\$ 160,000</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 9 - LONG-TERM DEBT (CONTINUED)

F. Changes in Long-Term Liabilities (Continued)

	Balance October 1, 2004	Issues or Additions	Payments or Expenditures	Balance September 30, 2005	Due Within One Year
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 1,712,952	\$ 0	\$ 258,338	\$ 1,454,614	\$ 227,614
Revenue bonds	1,660,000	0	85,000	1,575,000	75,000
Accrued employee benefits payable	<u>8,070</u>	<u>1,357*</u>	<u>0</u>	<u>9,427</u>	<u>0</u>
Total primary government	<u>\$ 3,381,022</u>	<u>\$ 1,357</u>	<u>\$ 343,338</u>	<u>\$ 3,039,041</u>	<u>\$ 302,614</u>
Component Unit:					
General obligation bond payable	\$ 670,000	\$ 0	\$ 100,000	\$ 570,000	\$ 105,000
Accrued employee benefits payable	<u>4,816</u>	<u>12,876*</u>	<u>0</u>	<u>17,692</u>	<u>5,598</u>
Total component unit	<u>\$ 674,816</u>	<u>\$ 12,876</u>	<u>\$ 100,000</u>	<u>\$ 587,692</u>	<u>\$ 110,598</u>

\*Represents net of additions and retirements for the year.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of September 30, 2005 are as follows:

Primary Government

General Obligation Bonds Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 160,000	\$ 123,248	\$ 283,248
2007	170,000	115,811	285,811
2008	165,000	108,172	273,172
2009	100,000	102,019	202,019
2010	105,000	97,261	202,261
2011–2015	620,000	404,106	1,024,106
2016–2020	690,000	235,309	925,309
2021–2024	<u>550,000</u>	<u>61,560</u>	<u>611,560</u>
	<u>\$ 2,560,000</u>	<u>\$ 1,247,486</u>	<u>\$ 3,807,486</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 9 - LONG-TERM DEBT (CONTINUED)

**Contracts Payable**

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 227,633	\$ 76,972	\$ 304,605
2007	248,027	64,379	312,406
2008	244,580	50,690	295,270
2009	260,739	36,428	297,167
2010	258,035	21,681	279,716
2011-2015	194,040	26,445	220,485
2016	<u>21,560</u>	<u>1,078</u>	<u>22,638</u>
	<u>\$ 1,454,614</u>	<u>\$ 277,673</u>	<u>\$ 1,732,287</u>

**Revenue Bonds Payable**

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 75,000	\$ 84,242	\$ 159,242
2007	80,000	80,342	160,342
2008	80,000	76,151	156,151
2009	110,000	71,262	181,262
2010	35,000	67,420	102,420
2011-2015	210,000	306,360	516,360
2016-2020	275,000	243,870	518,870
2021-2025	360,000	159,726	519,726
2026-2029	<u>350,000</u>	<u>49,551</u>	<u>399,551</u>
	<u>\$ 1,575,000</u>	<u>\$ 1,138,924</u>	<u>\$ 2,713,924</u>

Component Unit

**General Obligation Bond Payable**

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 105,000	\$ 23,157	\$ 128,157
2007	110,000	18,958	128,958
2008	115,000	14,557	129,557
2009	120,000	9,900	129,900
2010	<u>120,000</u>	<u>4,980</u>	<u>124,980</u>
	<u>\$ 570,000</u>	<u>\$ 71,552</u>	<u>\$ 641,552</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 10 - OPERATING TRANSFERS

During 2005, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 305,153	\$ 223,973
Major Street Fund	202,428	79,544
TIFA Fund	0	191,430
Major Business-Type Activity Funds:		
City Park Fund	<u>0</u>	<u>235,153</u>
Total Major Funds	507,581	730,100
Nonmajor Governmental Funds	<u>354,975</u>	<u>132,456</u>
	<u>\$ 862,556</u>	<u>\$ 862,556</u>

During 2005, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
General Fund	\$ 205,153	City Park Fund	\$ 205,153
General Fund	100,000	TIFA Fund	100,000
Major Street Fund	70,973	General Fund	70,973
Major Street Fund	131,455	Major Street Construction Fund	131,455
Local Street Fund	20,000	Major Street Fund	20,000
Cemetery Fund	1,001	Cemetery Perpetual Care	1,001
Community Center Fund	30,000	City Park Fund	30,000
Community Center Fund	38,000	General Fund	38,000
Major Street Construction Bond Fund	59,544	Major Street Fund	59,544
Iosco County Sewer System #2	91,430	TIFA Fund	91,430
Intragovernmental Service Fund	<u>115,000</u>	General Fund	<u>115,000</u>
Total	<u>\$ 862,556</u>	Total	<u>\$ 862,556</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 12 - RESTRICTED ASSETS AND RESERVES

The City is required, under Ordinance No. 203 on the 1967 revenue bond issue, to maintain certain restricted assets in the Sewer Fund. The ordinance provides that a "Bond and Interest Redemption Fund" be established with quarterly deposits for payment of principal and interest in an amount equal to at least the sum of one-half the amount due on the next ensuing interest due date and one-fourth of the principal next maturing.

The ordinance also requires that a "Bond Reserve Account" be established within the "Bond and Interest Redemption Fund." Quarterly deposits have previously been required under Ordinance No. 158 and the sum of \$43,000 has accumulated in both the Water and Sewer Funds. The monies so used are required to be used solely for payment of principal and interest on bonds that would otherwise be in default. Any monies so used are required to be replaced with the first available revenues not needed for operation and maintenance or for current principal and interest requirements.

The City is also required under Ordinance No. 203 to have established within the Sewer Fund a "Replacement Fund" for the purpose of making major repairs and replacements to the system. Any monies so used are required to be replaced with the first available revenues not needed to fulfill the above requirements. The balance of said account need not exceed the sum of \$15,000.

The City is required, under the 1999 Water Supply System Revenue Bonds, to maintain certain restricted assets in the Water Fund. The Bond provides that a Bond Reserve Account be established "at the lesser of" (1) the maximum annual debt service due in the current or any future year (2) 125% of the average annual debt service or (3) 10% of the principal amount of the Bonds. The City has met these requirements for the year ended September 30, 2005.

NOTE 13 - CONTINGENCIES

The City is a defendant in a Tax Tribunal proceeding for tax years 1997-2004. The plaintiff is seeking a reduction in the taxable value of its property. The City is awaiting a possible resolution by the Michigan Tax Tribunal, the Court of Appeals and possibly the Michigan Supreme Court. The City's liability, if any, would be a refund of its millage computed upon any reduction in taxable value which might be eventually awarded.

The City is a defendant in a Tax Tribunal proceeding for tax years 2002 - 2005. The plaintiff is seeking a reduction in the taxable value of three parcels of property. The tax appeals in the Tax Tribunal have been placed in abeyance pending final resolution of the plaintiff's bankruptcy proceeding, which it filed with the United States Bankruptcy Court under Chapter 11 of the Bankruptcy Code on July 6, 2004. The City's liability, if any, would be a refund of its millage computed upon any reduction in taxable value which might eventually be awarded.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2005

NOTE 14 - DEFERRED COMPENSATION PLAN

The City offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND

For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 916,804	\$ 917,000	\$ 919,375	\$ 2,375
State grants and revenue	300,000	404,500	308,764	(95,736)
Charges for services	89,350	92,575	93,323	748
Licenses and permits	1,200	1,200	1,144	(56)
Interest and rentals	129,605	157,770	169,809	12,039
Other revenue	3,400	67,050	61,231	(5,819)
Total revenue	<u>1,440,359</u>	<u>1,640,095</u>	<u>1,553,646</u>	<u>(86,449)</u>
<u>Expenditures</u>				
Current:				
General government				
City council	54,850	54,950	51,286	3,664
Elections	4,100	2,510	2,321	189
Administration	73,300	64,150	59,854	4,296
Assessor	39,650	45,350	45,266	84
Attorney	30,000	25,000	20,901	4,099
Board of review	675	575	458	117
Clerk	43,200	51,600	49,224	2,376
Treasurer	50,700	59,525	56,727	2,798
Buildings and grounds	205,503	209,485	203,840	5,645
Other general government	9,000	11,500	9,710	1,790
Public safety				
Police department	238,000	236,650	236,601	49
Fire protection	122,165	143,300	139,870	3,430
Public works				
Highways, streets and bridges	215,750	257,800	227,469	30,331
Street lighting	37,500	37,000	35,325	1,675
Sanitation	115,000	113,400	109,553	3,847
Parking system	10,050	8,425	5,974	2,451
Community and economic development				
Planning commission	47,310	37,300	27,055	10,245
Economic development	19,850	25,250	22,420	2,830
Recreation and cultural				
Library	35,900	36,325	34,899	1,426
Capital outlay	9,036	327,000	325,000	2,000
Total expenditures	<u>1,361,539</u>	<u>1,747,095</u>	<u>1,663,753</u>	<u>83,342</u>
Excess of revenue over (under) expenditures	<u>78,820</u>	<u>(107,000)</u>	<u>(110,107)</u>	<u>(3,107)</u>
Other Financing Sources (Uses):				
Sale of fixed assets	0	6,750	11,250	4,500
Operating transfers in	145,153	305,153	305,153	0
Operating transfers out	(223,973)	(223,973)	(223,973)	0
Total other financing sources (uses)	<u>(78,820)</u>	<u>87,930</u>	<u>92,430</u>	<u>4,500</u>
Excess of revenue and other sources over (under) expenditures and other uses	0	(19,070)	(17,677)	1,393
Fund balances - beginning of year	<u>1,039,460</u>	<u>1,039,460</u>	<u>1,039,460</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,039,460</u>	<u>\$ 1,020,390</u>	<u>\$ 1,021,783</u>	<u>\$ 1,393</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 MAJOR STREET FUND - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal grants	\$ 47,500	\$ 57,000	\$ 142,637	\$ 85,637
State grants and revenue	194,150	204,245	240,280	36,035
Interest and rentals	1,000	4,500	4,527	27
Total revenue	<u>242,650</u>	<u>265,745</u>	<u>387,444</u>	<u>121,699</u>
<u>Expenditures</u>				
Current:				
Public works				
Higways, streets and bridges:				
Construction	0	9,051	9,000	51
Routine maintenance	58,500	74,400	71,325	3,075
Traffic services	6,300	7,900	6,887	1,013
Winter maintenance	50,700	60,750	60,617	133
Administration	8,675	8,100	6,726	1,374
Trunkline maintenance	18,850	24,125	23,993	132
Capital outlay	<u>170,000</u>	<u>453,949</u>	<u>406,563</u>	<u>47,386</u>
Total expenditures	<u>313,025</u>	<u>638,275</u>	<u>585,111</u>	<u>53,164</u>
Excess of revenue over (under) expenditures	<u>(70,375)</u>	<u>(372,530)</u>	<u>(197,667)</u>	<u>174,863</u>
Other Financing Sources (Uses):				
Operating transfers in	70,900	317,063	202,428	(114,635)
Operating transfers out	<u>(80,044)</u>	<u>(80,044)</u>	<u>(79,544)</u>	<u>500</u>
Total other financing sources (uses)	<u>(9,144)</u>	<u>237,019</u>	<u>122,884</u>	<u>(114,135)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(79,519)</u>	<u>(135,511)</u>	<u>(74,783)</u>	<u>60,728</u>
Fund balances - beginning of year	<u>139,457</u>	<u>139,457</u>	<u>139,457</u>	<u>0</u>
Fund balances - end of year	<u>\$ 59,938</u>	<u>\$ 3,946</u>	<u>\$ 64,674</u>	<u>\$ 60,728</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 FEDERAL PROJECT FUND - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and rentals	\$ 25,756	\$ 45,314	\$ 46,516	\$ 1,202
Other revenue	<u>80,456</u>	<u>159,305</u>	<u>155,525</u>	<u>(3,780)</u>
Total revenue	106,212	204,619	202,041	(2,578)
<u>Expenditures</u>				
Current:				
Community and economic development	<u>101,000</u>	<u>255,000</u>	<u>254,818</u>	<u>182</u>
Excess of revenue over (under) expenditures	5,212	(50,381)	(52,777)	(2,396)
Fund balances - beginning of year	<u>361,618</u>	<u>361,618</u>	<u>361,618</u>	<u>0</u>
Fund balances - end of year	<u>\$ 366,830</u>	<u>\$ 311,237</u>	<u>\$ 308,841</u>	<u>\$ (2,396)</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 TIFA FUND - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 252,276	\$ 252,102	\$ 252,102	\$ 0
Interest and rentals	<u>2,000</u>	<u>10,500</u>	<u>12,503</u>	<u>2,003</u>
Total revenue	254,276	262,602	264,605	2,003
<u>Expenditures</u>				
Current:				
Community and economic development	<u>162,846</u>	<u>45,000</u>	<u>21,240</u>	<u>23,760</u>
Excess of revenue over expenditures	91,430	217,602	243,365	25,763
Other Financing Uses:				
Operating transfers out	<u>(91,430)</u>	<u>(291,430)</u>	<u>(191,430)</u>	<u>100,000</u>
Excess of revenue over (under) expenditures and other uses	0	(73,828)	51,935	125,763
Fund balances - beginning of year	<u>495,134</u>	<u>495,134</u>	<u>495,134</u>	<u>0</u>
Fund balances - end of year	<u>\$ 495,134</u>	<u>\$ 421,306</u>	<u>\$ 547,069</u>	<u>\$ 125,763</u>

## OTHER INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
September 30, 2005

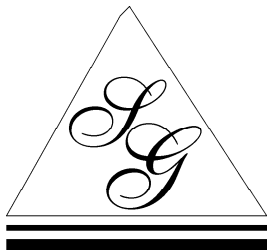
	Local Streets	Cemetery Fund	Community Center	Greenwood Cemetery Chapel	Intragovernmental Service Fund	Iosco County Sewer System #2	Building Authority Fund	Major Street Construction Bond	Major Street Construction Fund	Cemetery Perpetual Care	Total Other Governmental Funds
<b><u>ASSETS</u></b>											
Cash and cash equivalents	\$ 181,870	\$ 12,392	\$ 26,448	\$ 6,378	\$ 69,573	\$ 0	\$ 0	\$ 1,939	\$ 0	\$ 15,216	\$ 313,816
Investments	100,000	0	0	0	200,000	0	596	0	0	52,073	352,669
Due from other funds	<u>0</u>	<u>0</u>	<u>818</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>818</u>
Total Assets	<u>\$ 281,870</u>	<u>\$ 12,392</u>	<u>\$ 27,266</u>	<u>\$ 6,378</u>	<u>\$ 269,573</u>	<u>\$ 0</u>	<u>\$ 596</u>	<u>\$ 1,939</u>	<u>\$ 0</u>	<u>\$ 67,289</u>	<u>\$ 667,303</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>											
Liabilities:											
Accounts payable	\$ 165	\$ 15	\$ 4,857	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,037
Accrued liabilities	877	0	1,296	0	0	0	0	0	0	0	2,173
Due to other funds	<u>7</u>	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,007</u>
Total liabilities	<u>1,049</u>	<u>15</u>	<u>11,153</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,217</u>
<b><u>Fund Equity</u></b>											
Fund balances:											
Reserved for:											
Debt service	0	0	0	0	0	0	596	1,939	0	0	2,535
Perpetual care	0	0	0	0	0	0	0	0	0	67,289	67,289
Unreserved, reported in:											
Special revenue funds	<u>280,821</u>	<u>12,377</u>	<u>16,113</u>	<u>6,378</u>	<u>269,573</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>585,262</u>
Total fund equity	<u>280,821</u>	<u>12,377</u>	<u>16,113</u>	<u>6,378</u>	<u>269,573</u>	<u>0</u>	<u>596</u>	<u>1,939</u>	<u>0</u>	<u>67,289</u>	<u>655,086</u>
Total Liabilities and Fund Equity	<u>\$ 281,870</u>	<u>\$ 12,392</u>	<u>\$ 27,266</u>	<u>\$ 6,378</u>	<u>\$ 269,573</u>	<u>\$ 0</u>	<u>\$ 596</u>	<u>\$ 1,939</u>	<u>\$ 0</u>	<u>\$ 67,289</u>	<u>\$ 667,303</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2005

	Local Streets	Cemetery Fund	Community Center	Greenwood Cemetery Chapel	Intragovernmental Service Fund	Iosco County Sewer System #2	Building Authority Fund	Major Street Construction Bond	Major Street Construction Fund	Cemetery Perpetual Care	Total Other Governmental Funds
<u>Revenue</u>											
State grants and revenue	\$ 77,215	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 77,215
Charges for services	0	6,316	18,020	0	0	0	0	0	0	0	24,336
Interest and rentals	6,484	310	15,469	119	3,863	0	145,226	39	137	1,484	173,131
Other revenue	0	0	3,208	0	0	0	0	0	0	2,509	5,717
Total revenue	<u>83,699</u>	<u>6,626</u>	<u>36,697</u>	<u>119</u>	<u>3,863</u>	<u>0</u>	<u>145,226</u>	<u>39</u>	<u>137</u>	<u>3,993</u>	<u>280,399</u>
<u>Expenditures</u>											
Current:											
General government	0	13,752	0	0	0	0	0	0	0	0	13,752
Public works	77,160	0	0	0	0	0	0	0	0	0	77,160
Recreation and cultural	0	0	96,736	0	0	0	0	0	0	0	96,736
Debt service:											
Principal	0	0	0	0	0	80,000	50,000	35,000	0	0	165,000
Interest and fiscal charges	0	0	0	0	0	11,430	95,153	24,794	0	0	131,377
Total expenditures	<u>77,160</u>	<u>13,752</u>	<u>96,736</u>	<u>0</u>	<u>0</u>	<u>91,430</u>	<u>145,153</u>	<u>59,794</u>	<u>0</u>	<u>0</u>	<u>484,025</u>
Excess of revenue over (under) expenditures	<u>6,539</u>	<u>(7,126)</u>	<u>(60,039)</u>	<u>119</u>	<u>3,863</u>	<u>(91,430)</u>	<u>73</u>	<u>(59,755)</u>	<u>137</u>	<u>3,993</u>	<u>(203,626)</u>
Other Financing Sources (Uses):											
Sale of fixed assets	0	0	0	0	2,857	0	0	0	0	0	2,857
Operating transfers in	20,000	1,001	68,000	0	115,000	91,430	0	59,544	0	0	354,975
Operating transfers out	0	0	0	0	0	0	0	0	(131,455)	(1,001)	(132,456)
Total other financing sources (uses)	<u>20,000</u>	<u>1,001</u>	<u>68,000</u>	<u>0</u>	<u>117,857</u>	<u>91,430</u>	<u>0</u>	<u>59,544</u>	<u>(131,455)</u>	<u>(1,001)</u>	<u>225,376</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>26,539</u>	<u>(6,125)</u>	<u>7,961</u>	<u>119</u>	<u>121,720</u>	<u>0</u>	<u>73</u>	<u>(211)</u>	<u>(131,318)</u>	<u>2,992</u>	<u>21,750</u>
Fund balances - beginning of year	<u>254,282</u>	<u>18,502</u>	<u>8,152</u>	<u>6,259</u>	<u>147,853</u>	<u>0</u>	<u>523</u>	<u>2,150</u>	<u>131,318</u>	<u>64,297</u>	<u>633,336</u>
Fund balances - end of year	<u>\$ 280,821</u>	<u>\$ 12,377</u>	<u>\$ 16,113</u>	<u>\$ 6,378</u>	<u>\$ 269,573</u>	<u>\$ 0</u>	<u>\$ 596</u>	<u>\$ 1,939</u>	<u>\$ 0</u>	<u>\$ 67,289</u>	<u>\$ 655,086</u>





*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

December 2, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the City Council  
City of East Tawas  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, as of and for the year ended September 30, 2005, which collectively comprise the City of East Tawas' basic financial statements and have issued our report thereon dated December 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

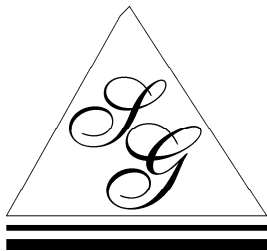
In planning and performing our audit, we considered the City of East Tawas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Tawas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

December 2, 2005

Members of the City Council  
City of East Tawas  
Iosco County, Michigan

Dear Council Members:

We have audited the financial statements of the City of East Tawas for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 12, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk material misstatements may exist and not be detected by us.

As part of our audit, we considered the City of East Tawas' internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the City of East Tawas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of East Tawas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of East Tawas during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of East Tawas' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of East Tawas, either individually or in the aggregate, indicate matters that could have a significant effect on the City of East Tawas' financial reporting process.

Members of the City Council  
City of East Tawas  
December 2, 2005  
Page Two

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of East Tawas' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the City.

This information is intended solely for the use of management, the City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grault & Co., P.C.*